

Business Situation

Final Estimates for the First Quarter of 2004

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real GDP increased 3.9 percent in the first quarter of 2004 (table 1 and chart 1).¹ The “preliminary” estimates released in May showed a 4.4-percent increase for the quarter. The downward revision to GDP mainly reflected revisions to imports and to consumer spending for services that were partly offset by a revision to exports (table 2).²

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” “inventory investment” is shorthand for “change in private inventories,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

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Table 1. Real Gross Domestic Product and Components
(Seasonally adjusted at annual rates)

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003			2004	2003			2004	
	II	III	IV	I	II	III	IV	I	
Gross domestic product (GDP)	3.1	8.2	4.1	3.9	3.1	8.2	4.1	3.9	100.0
Personal consumption expenditures	3.3	6.9	3.2	3.8	2.34	4.89	2.29	2.64	70.3
Durable goods	17.7	28.0	0.7	-3.7	1.38	2.23	0.06	-0.32	8.4
Nondurable goods	1.2	7.3	5.4	6.9	0.25	1.48	1.07	1.36	20.3
Services	1.7	2.8	2.8	3.9	0.71	1.19	1.16	1.61	41.6
Gross private domestic investment	4.7	14.8	14.9	9.4	0.73	2.17	2.19	1.43	15.9
Fixed investment	6.1	15.8	9.9	5.0	0.90	2.30	1.48	0.78	15.6
Nonresidential	7.0	12.8	10.9	5.3	0.68	1.25	1.08	0.54	10.3
Structures	3.9	-1.8	-1.4	-7.4	0.09	-0.04	-0.03	-0.18	2.3
Equipment and software	8.0	17.6	14.9	9.2	0.59	1.30	1.11	0.71	8.0
Residential	4.5	21.9	7.9	4.6	0.22	1.05	0.40	0.24	5.4
Change in private inventories					-0.17	-0.13	0.71	0.65	0.2
Net exports of goods and services					-1.34	0.80	-0.32	-0.71	-4.7
Exports	-1.1	9.9	20.5	7.5	-0.11	0.92	1.81	0.72	10.0
Goods	-1.7	8.6	21.3	9.4	-0.11	0.56	1.29	0.62	6.9
Services	0.2	12.7	18.9	3.3	0.01	0.36	0.52	0.10	3.0
Imports	9.1	0.8	16.4	10.4	-1.24	-0.12	-2.14	-1.43	14.7
Goods	13.7	-1.5	18.3	12.2	-1.51	0.18	-1.96	-1.39	12.2
Services	-10.9	13.4	7.5	1.9	0.27	-0.30	-0.17	-0.05	2.4
Government consumption expenditures and gross investment	7.4	1.8	-0.1	3.0	1.36	0.34	-0.01	0.54	18.5
Federal	23.5	1.2	0.7	8.5	1.46	0.09	0.05	0.57	7.0
National defense	41.9	-1.3	3.0	13.2	1.58	-0.06	0.13	0.58	4.7
Nondefense	-5.0	6.5	-3.7	-0.3	-0.12	0.15	-0.09	-0.01	2.3
State and local	-0.8	2.1	-0.5	-0.3	-0.10	0.25	-0.06	-0.03	11.5

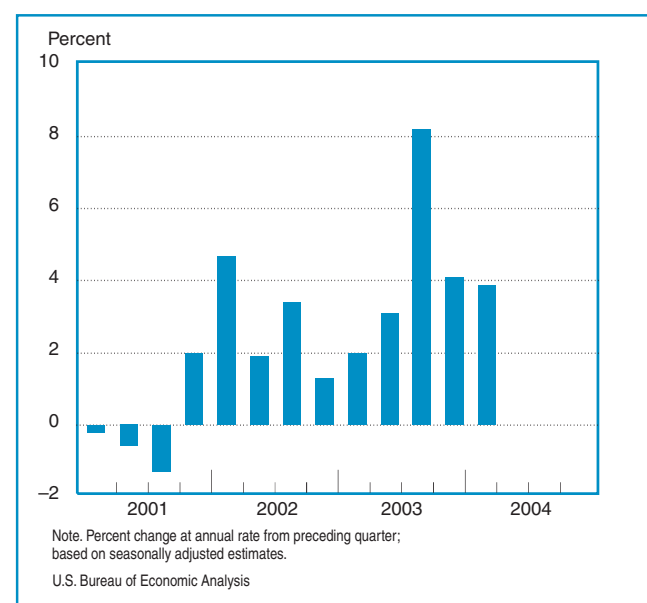
NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

- The first-quarter real GDP increase of 3.9 percent was similar to the 4.1-percent increase in the fourth quarter of 2003. (The average annual rate of growth of real GDP over the past 10 years was 3.3 percent.)
- Prices of goods and services purchased by U.S. residents increased 3.5 percent, 0.2 percentage point more than in the preliminary estimate. In the fourth quarter of 2003, prices had increased 1.3 percent. The step-up from the fourth quarter to the first partly reflected an upturn in energy prices.
- Real disposable personal income (DPI) increased 4.9 percent, unrevised from the preliminary estimate. In the fourth quarter, DPI had increased 1.2 percent.

Most major components of GDP contributed to the 3.9-percent first-quarter increase; the contributions of these components were partly offset by imports, which are subtracted in the calculation of GDP.

- Consumer spending increased 3.8 percent in the first quarter and contributed 2.64 percentage points to GDP growth, a little more than it had contributed to fourth-quarter growth. Purchases of services and of nondurable goods stepped up, but purchases of durable goods turned down.

Chart 1. Real Gross Domestic Product



- Exports increased 7.5 percent after increasing 20.5 percent and contributed 0.72 percentage point to GDP growth. Most of the slowdown was accounted for by exports of nonautomotive capital goods and of services.
- Investment in private inventories increased about as much in the first quarter as in the fourth and contributed 0.65 percentage point to GDP growth.

Table 2. Final and Preliminary Estimates for the First Quarter of 2004

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product.....	3.9	4.4	-0.5	3.9	4.4	-0.5
Personal consumption expenditures.....	3.8	3.9	-0.1	2.64	2.71	-0.07
Durable goods.....	-3.7	-4.2	0.5	-0.32	-0.36	0.04
Nondurable goods.....	6.9	6.6	0.3	1.36	1.32	0.04
Services.....	3.9	4.2	-0.3	1.61	1.76	-0.15
Gross private domestic investment.....	9.4	10.1	-0.7	1.43	1.55	-0.12
Private fixed investment.....	5.0	5.1	-0.1	0.78	0.80	-0.02
Nonresidential.....	5.3	5.8	-0.5	0.54	0.59	-0.05
Structures.....	-7.4	-7.0	-0.4	-0.18	-0.17	-0.01
Equipment and software.....	9.2	9.8	-0.6	0.71	0.76	-0.05
Residential.....	4.6	3.8	0.8	0.24	0.20	0.04
Change in private inventories.....				0.65	0.75	-0.10
Net exports of goods and services.....				-0.71	-0.35	-0.36
Exports.....	7.5	4.9	2.6	0.72	0.47	0.25
Goods.....	9.4	6.3	3.1	0.62	0.42	0.20
Services.....	3.3	1.8	1.5	0.10	0.05	0.05
Imports.....	10.4	5.9	4.5	-1.43	-0.82	-0.61
Goods.....	12.2	6.6	5.6	-1.39	-0.76	-0.63
Services.....	1.9	2.6	-0.7	-0.05	-0.06	0.01
Government consumption expenditures and gross investment.....	3.0	2.9	0.1	0.54	0.54	0.00
Federal.....	8.5	9.2	-0.7	0.57	0.62	-0.05
National defense.....	13.2	13.2	0.0	0.58	0.58	0.00
Nondefense.....	-0.3	1.5	-1.8	-0.01	0.04	-0.05
State and local.....	-0.3	-0.7	0.4	-0.03	-0.08	0.05
Addenda:						
Final sales of domestic product.....	3.2	3.7	-0.5	3.25	3.69	-0.44
Gross domestic purchases price index.....	3.5	3.3	0.2			
GDP price index.....	2.8	2.6	0.2			

NOTE: The final estimates for the first quarter of 2004 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Retail sales for March (revised) and bank services data for the quarter.

Nonresidential fixed investment: Construction put-in-place data for February and March (revised), manufacturers' shipments of machinery and equipment for March (revised), and exports and imports of machinery for March (revised).

Residential fixed investment: Construction put-in-place data for February and March (revised).

Change in private inventories: Manufacturing and trade inventories for March (revised) and stocks of coal and petroleum at electric utilities for February.

Exports and imports of goods and services: Exports and imports of goods and services for October 2003 through March 2004 (revised) reflecting (on a "best-change basis") the results of the annual revision of BEA's international transactions accounts.

Government consumption expenditures and gross investment: State and local construction put-in-place for February and March (revised).

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for March.

GDP prices: Export and import prices for January through March (revised), unit-value index for petroleum imports for March (revised), prices of single-family houses under construction for the quarter (revised), and bank services data for the quarter.

- Nonresidential fixed investment increased 5.3 percent, about half as much as in the fourth quarter, and it contributed 0.54 percentage point to GDP growth. Investment in equipment and software slowed, and investment in structures decreased more than in the fourth quarter.
- Government spending increased 3.0 percent after little change in the fourth quarter, and it also contributed 0.54 percentage point to GDP growth. The increase was more than accounted for by national defense spending; Federal nondefense spending and spending by state and local governments each decreased slightly.
- Residential investment increased 4.6 percent after increasing 7.9 percent and contributed 0.24 percentage point to GDP growth. The slowdown was more than accounted for by single-family construction.
- Imports increased 10.4 percent after increasing 16.4 percent and subtracted 1.43 percentage points from GDP growth. The biggest contributions to the slowdown were made by autos, by nonautomotive consumer goods, and by nonautomotive capital goods; petroleum imports turned up.

The final estimates for the first quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.2 percent after increasing 3.4 percent.
- Real gross domestic purchases increased 4.4 percent after increasing 4.3 percent.
- Real gross national product (GNP) increased 3.4 percent after increasing 5.5 percent.³ The smaller first-quarter increase in GNP than in GDP reflected a slight decrease in income receipts from the rest of the world and a moderate increase in income payments to the rest of the world.
- Motor vehicle output turned down. Excluding motor vehicles, real GDP increased 4.4 percent after increasing 4.2 percent.

3. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP *plus* income receipts from the rest of the world *minus* income payments to the rest of the world.

Corporate Profits

Profits from current production increased \$20.9 billion (1.7 percent at a quarterly rate) in the first quarter of 2004 after increasing \$81.4 billion (7.2 percent) in the fourth quarter of 2003 (table 3).⁴ The slowdown was mostly accounted for by a downturn in profits from the rest of the world; profits of

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10–1.12, 1.14–1.16, and 6.16D.

Percent changes in profits are shown at quarterly, not annual, rates.

Table 3. Corporate Profits
(Seasonally adjusted)

	Billions of dollars					Percent change from preceding quarter				
	Level		Change from preceding quarter							
	2004		2003			2003				
	I	II	III	IV	I	II	III	IV	I	
Current production measures:										
Corporate profits	1,226.5	95.7	101.4	81.4	20.9	10.3	9.9	7.2	1.7	
Domestic industries	1,031.6	95.9	92.2	33.9	31.2	12.3	10.5	3.5	3.1	
Financial	324.0	11.2	19.6	5.2	19.6	4.2	7.0	1.7	6.4	
Nonfinancial	707.7	84.7	72.6	28.7	11.7	16.6	12.2	4.3	1.7	
Rest of the world	194.8	-0.2	9.2	47.5	-10.4	-0.2	6.2	30.1	-5.1	
Receipts from the rest of the world	291.0	5.4	15.4	49.1	5.7	2.5	6.9	20.8	2.0	
Less: Payments to the rest of the world	96.2	5.7	6.1	1.7	16.1	8.6	8.4	2.1	20.1	
Less: Taxes on corporate income	244.1	-2.5	19.2	13.1	0.4	-1.2	9.0	5.7	0.2	
Equals: Profits after tax	982.3	98.1	82.4	68.2	20.4	13.8	10.1	7.6	2.1	
Net dividends	449.8	7.2	6.8	7.5	8.0	1.7	1.6	1.7	1.8	
Undistributed profits from current production	532.5	90.9	75.5	60.9	12.3	31.0	19.7	13.2	2.4	
Net cash flow	1,297.3	86.1	77.2	70.6	20.1	8.3	6.8	5.9	1.6	
Industry profits:										
Profits with IVA	893.4	12.7	70.6	72.2	-43.0	1.6	8.9	8.4	-4.6	
Domestic industries	698.6	13.0	61.3	24.8	-32.6	2.1	9.5	3.5	-4.5	
Financial	288.7	-1.2	14.0	3.4	10.7	-0.5	5.4	1.2	3.8	
Nonfinancial	409.9	14.2	47.3	21.4	-43.3	3.8	12.3	5.0	-9.6	
Utilities	26.0	-7.0	0.4	5.2	-0.7	-25.1	1.8	24.6	-2.9	
Manufacturing	98.8	-6.8	17.4	23.4	-22.3	-7.8	21.7	23.9	-18.4	
Wholesale trade	40.1	2.8	8.4	-2.8	-8.1	7.0	19.8	-5.5	-16.8	
Retail trade	78.9	12.1	-0.7	-6.1	0.7	16.6	-0.8	-7.3	0.9	
Transportation and warehousing	10.8	7.3	1.8	-0.2	-3.7	129.0	14.0	-1.1	-26.0	
Information	-11.6	3.4	10.3	-7.0	-6.9	
Other nonfinancial	167.0	2.6	9.5	8.9	-2.1	1.7	6.3	5.6	-1.3	
Rest of the world	194.8	-0.2	9.2	47.5	-10.4	-0.2	6.2	30.1	-5.1	
Addenda:										
Profits before tax (without IVA and CCAj)	932.7	-16.5	73.4	92.2	-25.4	-2.0	9.3	10.6	-2.7	
Profits after tax (without IVA and CCAj)	688.5	-14.0	54.4	79.1	-26.0	-2.4	9.4	12.4	-3.6	
IVA	-39.3	29.3	-3.0	-19.9	-17.6	
CCAj	333.1	82.9	30.9	9.1	63.9	56.7	13.5	3.5	23.7	

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment
CCAj Capital consumption adjustment

domestic industries increased almost as much as in the fourth quarter.⁵

The revised first-quarter estimate of profits from current production is \$6.5 billion higher than the preliminary estimate released a month ago. Profits from the rest of the world were revised up \$11.5 billion, and the upward revision more than offset a \$5.1 billion downward revision to profits of domestic industries. The upward revision to profits from the rest of the world was more than accounted for by receipts from foreign affiliates. The downward revision to profits of domestic industries was more than accounted for by financial corporations.

Taxes on corporate income increased slightly in the first quarter. After-tax profits from current production increased \$20.4 billion (2.1 percent).

The first-quarter decrease in rest-of-the-world profits reflected a larger increase in payments by domestic affiliates to foreign parents than in receipts from foreign affiliates of domestic parents.

Profits of domestic financial corporations increased \$19.6 billion (6.4 percent).

Profits of domestic nonfinancial corporations increased \$11.7 billion (1.7 percent), reflecting an increase in real output.⁶ Unit profits were unchanged in the first quarter, as an increase in unit prices was matched by an increase in unit costs.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$20.1 billion.⁷ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, held at the record level of 110.2 that was set in the preceding quarter; the ratio has been above 100 for four consecutive quarters.

5. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

6. "Output" here is shorthand for "gross value added of nonfinancial corporate business" (see NIPA table 1.14).

7. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Industry profits. The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) are not available at this level. (CCAdj is only available for total financial industries and for total nonfinancial industries). Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).

In the first quarter, domestic industry profits with IVA decreased \$32.6 billion.

For domestic nonfinancial industries, profits with IVA decreased \$43.3 billion. About half of the decrease

was accounted for by manufacturing; manufacturers of “other durable” goods and of “other nondurable” goods posted the biggest decreases. Wholesale trade and the information industry also posted notable decreases (chart 2).

For domestic financial industries, profits with IVA increased \$10.7 billion. Almost half of the increase was accounted for by corporations (including bank holding companies) that manage companies and enterprises. Increases were also posted by corporations that handle security and commodity investments and insurance.

Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change from 2003:IV to 2004:I

